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09

Special Report

Climate spending in the 2014-2020 EU budget

Not as high as reported

CURIA RATIONUM

EUROPEAN
COURT
OF AUDITORS

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Executive summary

I Addressing climate change is a key priority for the EU, which has set itself challenging energy and climate objectives. These include 2020 and 2030 targets for reducing greenhouse gas emissions, increasing the use of renewable energy, and promoting energy efficiency. The EU has also set a long-term target of achieving carbon neutrality by 2050.

II The EU committed to spending at least 20 % of the budget for 2014-2020 on climate action. In 2021, the Commission reported that it had met the target, having spent €216 billion (20.1 %) on climate-relevant measures. The 2021-2027 EU budget includes an increased target of 30 % on climate action.

III The objective of the audit was to determine whether the Commission had reported relevant and reliable climate-spending information for 2014-2020. We examined how the Commission applied its methodology in assessing climate spending, as well as how the reported expenditure contributed to climate action. We also reviewed the expected changes in tracking climate spending post-2020. We carried out the work at this time to help the Commission improve the future reporting on climate spending.

IV We found that the reported spending was not always relevant to climate action. Our overall assessment is that the Commission overestimated the climate contribution of key components of agricultural funding such as cross-compliance, areas with natural constraints, and organic farming. Commission's, academic and non-governmental organisations' publications support our assessment.

V Similarly, we assess that the Commission overestimated the climate contribution of key sub-sectors of infrastructure and cohesion funding such as rail transport, electricity and biomass. The Commission did not use conservative assumptions and was inconsistent in reporting on these projects.

VI We consider that the overall reporting on climate spending was unreliable. It involved significant approximation and tracked only the potential positive impact on climate without evaluating the final contribution to EU climate goals. There was also a risk that the planned or committed amounts would not be spent. This could further inflate reported climate spending. In one instance, the Commission included the national contribution in EU reporting.

VII Our analysis indicated that the Commission overstated climate spending by at least €72 billion, over 80 % of which was from agricultural funding. This means that around 13 % of the 2014-2020 EU budget was spent on climate action.

VIII We express concerns regarding the reliability of 2021-2027 climate reporting. Despite the proposed improvements in reporting methodology, most of the issues identified for 2014-2020 still remain. The NextGenerationEU funding instrument, introduced in 2020, incorporates the key principle of "do no significant harm", meaning that economic activities should not threaten environmental or climate objectives. However, we found that NextGenerationEU brings additional challenges due to unclear links between payments and climate objectives.

IX To improve future reporting on climate spending, we recommend that the Commission obtain scientific evidence to support the contribution from agricultural policy, the largest component of the EU climate reporting. We also recommend enhancing climate reporting by identifying EU spending with a potentially negative climate impact, issuing guidelines to ensure consistency, and taking stock of the unused amounts. In addition, the Commission should assess the contribution made by climate spending to EU climate and energy objectives.

Introduction

01 The scale of recent changes across the climate system and the human influence on it are unprecedented and many changes are irreversible for centuries, according to the Intergovernmental Panel on Climate Change[1]. Addressing climate change through internal policies and cooperation with international partners is a key priority for the EU[2]. ***Figure 1*** shows the building blocks of EU climate policy.

Figure 1 – Building blocks

Source: ECA.

International climate commitments

02 Under the Kyoto Protocol, which entered into force in 2005, the EU committed to reducing its greenhouse gas (GHG) emissions by 8 % from 1990 levels between 2008 and 2012[3]. This target aims to limit global warming to support climate change mitigation. In addition, the Protocol addresses climate change adaptation, or adjusting to climate change and its effects.

03 In 2015, the Paris Agreement established a worldwide climate-mitigation target of limiting global warming to "well below" 2°C, and preferably to 1.5°C. It also aimed to

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1 IPCC, Summary for Policymakers in Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2021, p. 21.

2 See Commission website, DG Climate Action, EU Action.

3 Decision 2002/358/CE concerning the approval of the Kyoto Protocol.

increase the parties' ability to adapt to climate change. The EU and its Member States ratified the Agreement in 2016.

Main developments in the EU climate framework

04 In 2011, the Commission announced its objective of increasing the proportion of the **EU budget** related to climate to at least 20 % for 2014-2020[4]. In 2012, the European Parliament passed a Resolution supporting at least "20 % of **expenditure** being climate-related". In 2013, the European Council concluded that "climate action objectives will represent at least 20 % of **EU spending** in the period 2014-2020"[5]. In 2014, the EU embedded a methodology for climate change support in legislation with regard to the European Structural and Investment Funds[6].

05 The Commission bases its methodology for quantifying climate spending on assigning coefficients to EU programme components such as intervention fields or projects, following their expected contribution to climate action (see ***Table 1***). This methodology is an adapted version of the Organisation for Economic Co-operation and Development (OECD) Rio markers, introduced in 1998 to identify activities that mainstream the Rio conventions objectives into development cooperation[7].

Table 1 – The three EU climate coefficients

Expected contribution to climate objectives:	Significant	Moderate	None or insignificant
EU climate coefficient:	100 %	40 %	0 %

Source: ECA, based on Commission, A Budget for Europe 2020, COM(2011) 500, Part II, p. 15.

[4] Commission, A budget for Europe 2020, COM(2011) 500, 2011, Part II, p. 13.

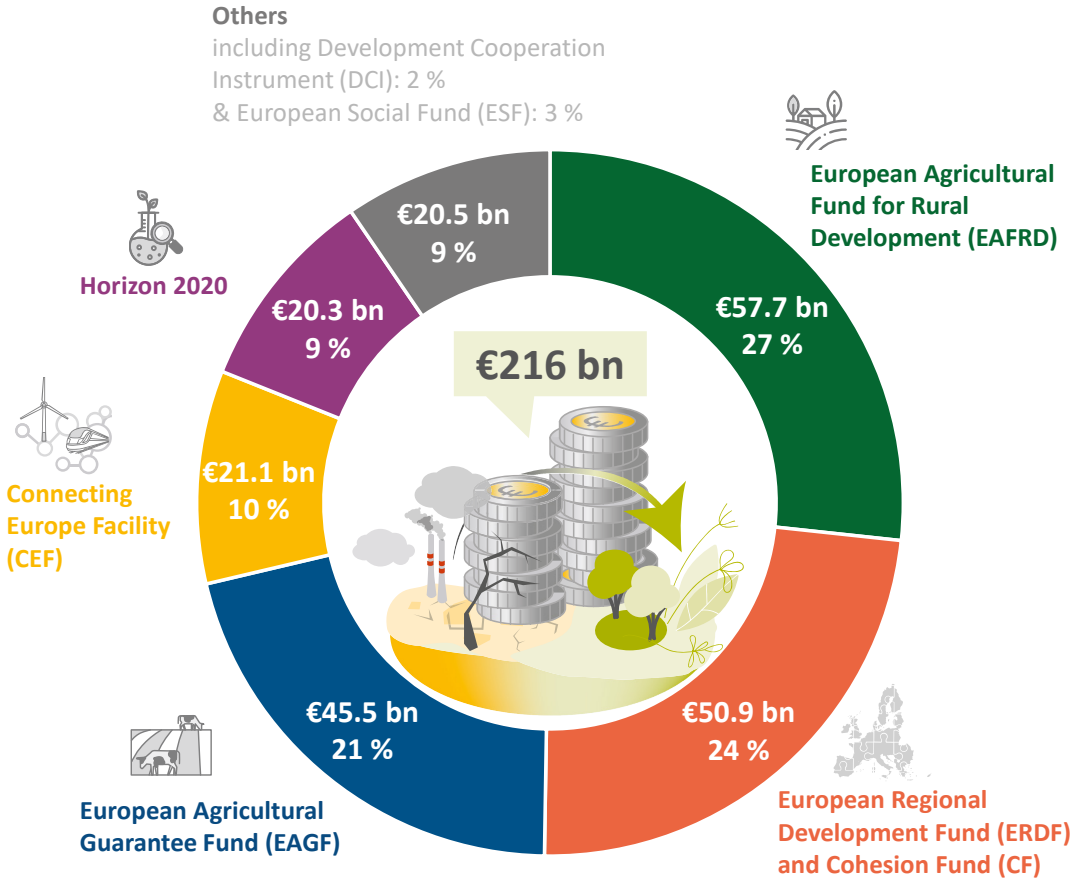
[5] European Council, Conclusions – Multiannual Financial Framework, EUCO 37/13, 2013, paragraph 10.

[6] Regulation (EU) 215/2014 with regard to methodologies for climate change support.

[7] OECD, OECD DAC Rio Markers for Climate Handbook, p. 2.

06 The Commission reports annually on overall climate-related spending in the draft budgets and its management and performance reports for the EU budget. The Directorates-General for Budget and Climate Action co-lead this annual exercise. In June 2021, the Commission reported that "the EU spent 20.1 % of its 2014-2020 budget, or €216 billion, on combating climate change, delivering on its 20 % target"[8]. ***Figure 2*** shows the main spending programmes contributing to this target.

Figure 2 – Climate contribution within the 2014-2020 EU budget, as reported by the Commission

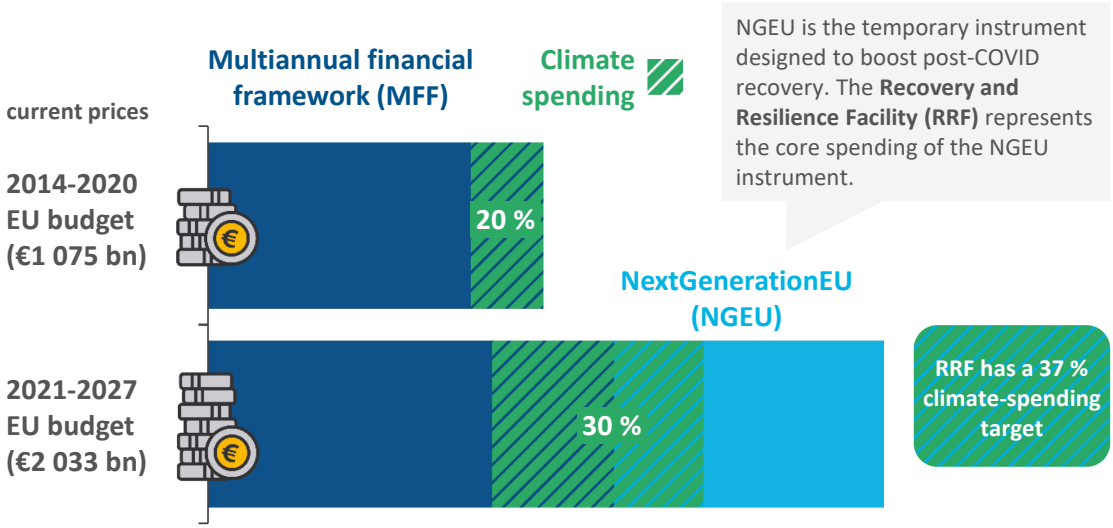


Note: 'Others' also includes the European Neighbourhood Instrument, Programme for the Environment and Climate Action, Instrument for Pre-accession Assistance, Humanitarian Aid etc.
Source: ECA, based on Commission 2020 Annual Management and Performance Report for the EU budget.

[8] Commission, 2020 Annual Management and Performance Report for the EU budget, Volume I.

07 For 2021-2027, the European Parliament, the Council and the Commission have set an overall target of 30 % contribution to climate action, higher than the previous programming period (see ***Figure 3***).

Figure 3 – Climate-spending targets for the EU budget



Source: ECA, based on: Commission, A Modern Budget for a Union that Protects, Empowers and Defends; The Multiannual Financial Framework for 2021-2027, COM(2018) 321; European Council, Conclusions - Special meeting of the European Council, EUCO 10/20, 2020, p. 7; Commission, Guidance to Member States, Recovery and Resilience Plans, SWD(2020) 205, p. 5.

08 In 2019, the Commission published its Communication on the European Green Deal, aimed at "[transforming] the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy". The Green Deal Communication laid out an EU climate plan for 2030 and 2050. The European Council endorsed the objective of achieving a climate-neutral EU by 2050[9].

09 In 2021, the EU adopted its European Climate Law, establishing a binding EU target of zero net GHG emissions by 2050. It also set an intermediate target of reducing net emissions by 55 % by 2030 (compared to 1990). The Commission's "Fit for 55" package supports progress towards the intermediate 2030 target. It contains a list of interconnected legislative proposals, revisions and amendments encompassing policy areas such as energy, climate, buildings, land use, land-use change and forestry, including the creation of a "Social Climate Fund".

[9] European Council, Conclusions, EUCO 29/19, 2019.

10 The Commission published an EU strategy on adaptation to climate change in 2013, and a new strategy in 2021[10]. The European Climate Law requires EU Institutions and Member States to work towards adapting to climate change.

11 The EU Emissions Trading System (ETS) supports emissions reduction in energy-intensive industries, electricity and heating generation, and aviation[11] (see ***Box 1***). Other economic sectors fall under the EU's 'effort-sharing' legislation, which sets national targets for emissions reduction to support the EU target[12].

Box 1 – The EU Emissions Trading System

The EU ETS works as a "cap-and-trade" programme, in which the operators covered must surrender one emission allowance per tonne of carbon dioxide equivalent they emit. These operators may receive allowances for free, obtain them through auctions or trade them among themselves. Each year the total number of allowances available is reduced, providing a "cap".

12 The 2020 and 2030 EU energy and climate objectives include targets for reducing GHG emissions, increasing the use of renewable energy, and promoting energy efficiency (see ***Figure 4***, ***Figure 5*** and ***Figure 6***). In 2021, the European Climate Law set a binding objective of achieving a climate-neutral EU by 2050 (see paragraph ***09***), and the Commission proposed new targets for renewable energy and energy efficiency[13].

13 The European Environment Agency (EEA) reports that:

- The EU met the GHG reduction target of 20 % by 2020, having already reduced GHG emissions by 24 % from 1990 levels by 2019 (see ***Figure 4***).

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[10] Commission, Forging a climate-resilient Europe – the new EU Strategy on Adaptation to Climate Change, COM(2021) 82.

[11] Annex I of Directive 2003/87/EC on the EU ETS.

[12] Decision 406/2009/EC on GHG emission reduction commitments up to 2020, and Regulation (EU) 2018/842 on GHG targets for Member States from 2021 to 2030.

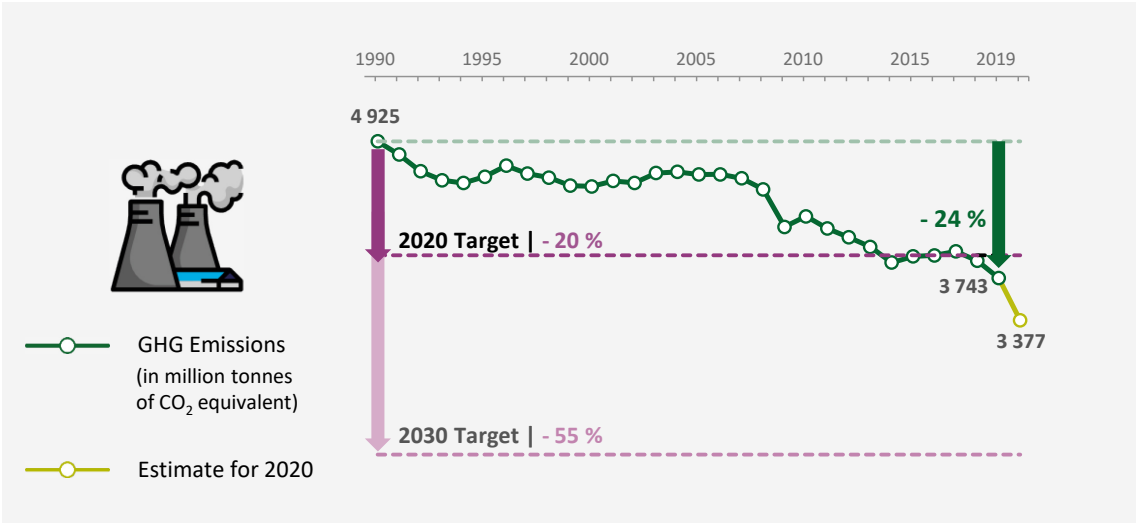
[13] Commission, Proposal for amending various directives on renewable energy, COM(2021) 557; Commission, Proposal for a Directive on Energy Efficiency (recast), COM(2021) 558.

- The share of energy consumption from renewable sources was 19.7 % in 2019, with the 2020 figure estimated at 21.3 % (see ***Figure 5***).

- The downward trend in energy consumption observed since 2006 inverted in 2015, but the EEA estimates that the EU met its 2020 target, reducing primary energy consumption by 24 % (see ***Figure 6***).

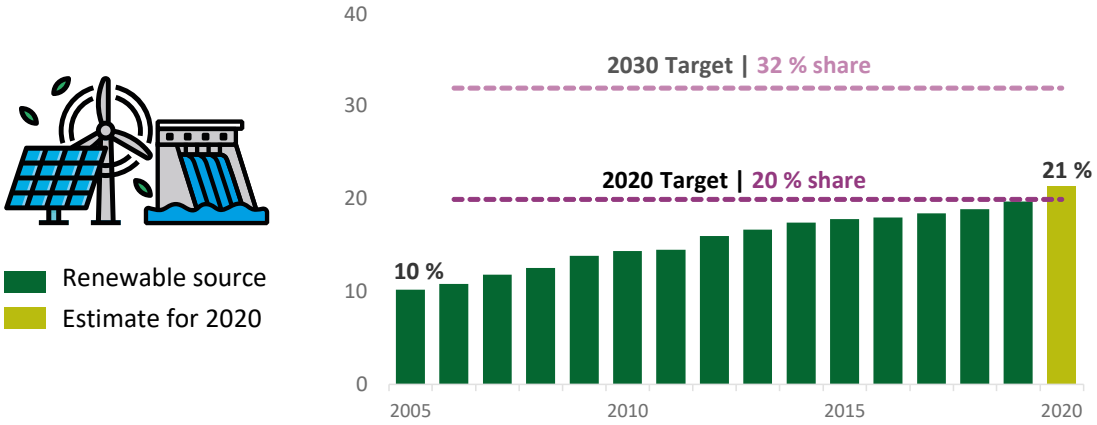
The COVID-19 pandemic affected GHG emissions and energy consumption in 2020[14].

Figure 4 – EU targets for GHG emission reduction (baseline 1990)



Source: ECA, based on: EEA greenhouse gases - data viewer for 1990-2019; EEA Report No 13/2021 Trends and projections in Europe 2021 for 2020 projection.

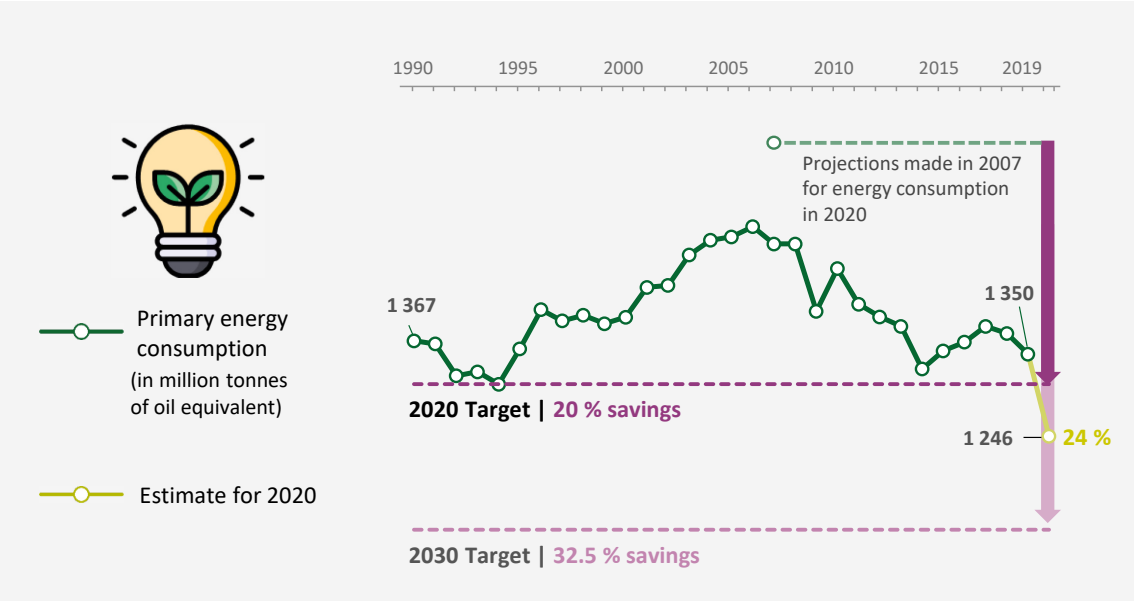
Figure 5 – Share of energy consumption from renewable sources in the EU



Note: In 2021, the Commission proposed a new target for 2030.
Source: ECA, based on EEA data.

[14] EEA Report No 13/2021 Trends and projections in Europe 2021 for 2020 projection.

Figure 6 – EU target for energy efficiency (compared to projected energy consumption in 2020)



Note: In 2021, the Commission proposed a new target for 2030.
Source: ECA, based on EEA data.

14 The Commission has reported that most energy savings at national level were due to energy efficiency obligations or energy taxation, rather than public investment[15]. Previous ECA reports concluded that it was impossible to assess the EU budget's contribution to the EU energy efficiency target in buildings and enterprises using the existing monitoring system. We estimated that the projects we sampled would deliver a modest contribution to the energy efficiency objectives[16].

[15] Commission, 2019 assessment of the progress made by Member States towards the national energy efficiency targets for 2020, COM(2020) 326.

[16] European Court of Auditors, special report 11/2020: Energy efficiency in buildings: greater focus on cost-effectiveness still needed; European Court of Auditors, special report 02/2022: Energy efficiency in enterprises – some energy savings but weaknesses in planning and project selection.

Audit scope and approach

15 Our main audit question looked at whether the Commission had reported relevant and reliable information on climate spending for the 2014-2020 period. We also analysed progress towards the target of spending at least 20 % of the EU budget on climate action. We examined how the Commission had applied its methodology to account for climate spending and the reliability of climate reporting. Lastly, we looked into the EU framework for tracking climate spending post-2020.

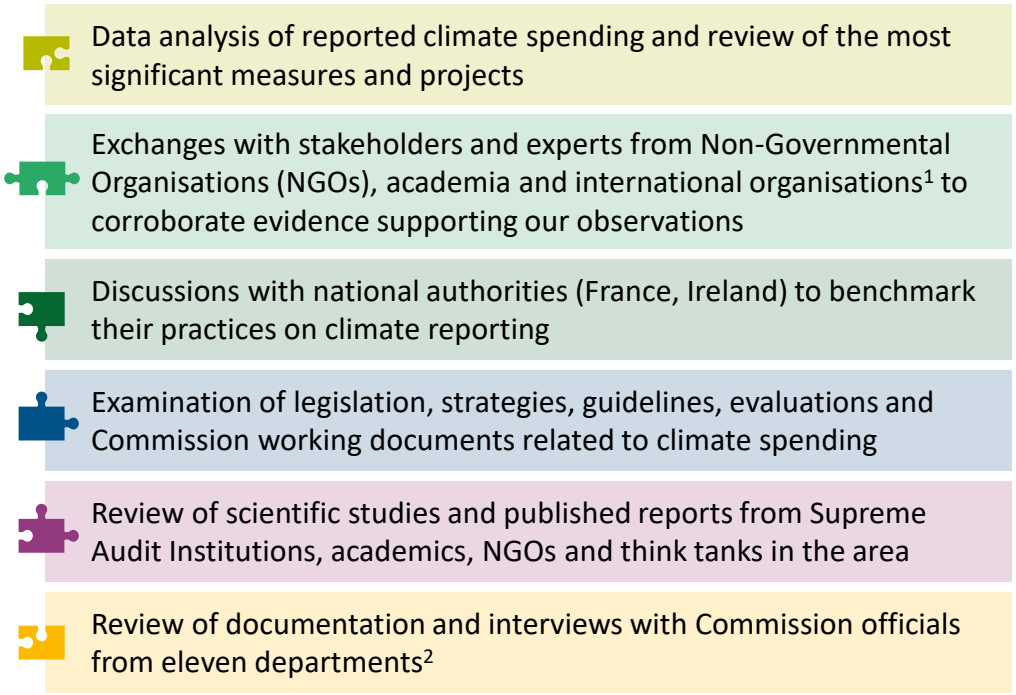
16 We decided to carry out this work now given that this topic is high on the international and EU political agenda. Furthermore, climate spending and reporting is a crosscutting issue covering a significant share of the EU budget (see ***Figure 1***). Our report will help the Commission improve the relevance and reliability of its climate reporting during the 2021-2027 programming period. We expect our findings and recommendations to be useful in the context of the EU's objective of achieving climate neutrality by 2050.

17 The audit expands on our previous work in the area, which identified weaknesses in the methodology used to track climate action leading to overestimates of climate spending[17]. It explores previously reviewed areas in greater depth and adds other areas to the scope. The ***Annex*** lists our previous recommendations that are still relevant to climate reporting and complement our work.

18 Using the three EU climate coefficients of the Commission's methodology (see ***Table 2***), we reassessed the contribution of the EU budget to climate action. To do so, we used available scientific evidence, our previous work and relevant audit testing. Given the nature of the exercise and the limitations of available data, our quantifications are indicative. Our scope included all EU programmes with a contribution of more than 2 % to climate reporting (see ***Figure 2***). ***Figure 7*** summarises our audit approach and the main sources of evidence.

[17] European Court of Auditors, special report 17/2013: EU climate finance in the context of external aid; special report 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, 2016; review 01/2020: Tracking climate spending in the EU budget.

Figure 7 – Our audit approach and main sources of evidence



[1] OECD, Climate Action Network, Institute for European Environmental Policy, Centre for European Policy Studies, European Investment Bank.

[2] Directorates-General for Budget, for Economic and Financial Affairs, for Employment, Social Affairs and Inclusion, for Agriculture and Rural Development, for Mobility and Transport, for Energy, for Climate Action, for Research and Innovation, for Regional and Urban Policy, for International Partnership, for Structural Reform Support and the Recovery and Resilience Task Force.

Source: ECA.

Observations

Reported spending not always relevant to climate action

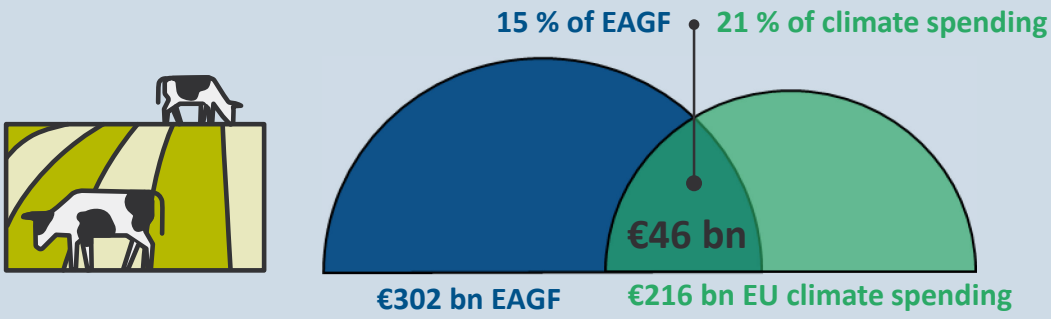
19 If reported as climate-relevant, EU spending should work towards climate change mitigation or adaptation, contribute to the EU energy and climate objectives, or address the impact and risks of climate change. Expenditure contributing to climate action should be calculated using realistic climate coefficients. This section looks into the main areas of the EU public spending programmes reported as climate-relevant: agriculture, infrastructure and cohesion.

Half of the reported EU climate spending from agriculture, but no decrease in farm emissions

20 The two main components of EU Common Agricultural Policy are the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). Their main features and contributions to 2014-2020 climate reporting are summarised in ***Box 2*** and ***Box 3***.

Box 2 – Contribution to 2014-2020 climate reporting: EAGF direct payments

The **European Agricultural Guarantee Fund (EAGF)** finances EU direct payments and market measures under the Common Agricultural Policy (CAP). Direct payments, which constitute the largest share of EAGF financing, are agricultural support payments made directly to farmers (e.g. based on area).



Source: ECA, based on Commission reporting.

21 Half the EU's reported climate spending is related to agriculture (see ***Figure 2***). A 2021 ECA report notes that GHG emissions from farming in the EU have not decreased since 2010[18]. Modelling studies on climate change **mitigation** suggest that without direct payments EU GHG emissions from agriculture would be 2.5 - 4.2 % lower. This is a consequence of a decrease in agricultural activity, with the biggest contribution from cattle farming[19]. Decreases in EU GHG emissions from reducing direct payments/agricultural activity in the EU would be offset to an extent by increased emissions outside the EU (carbon leakage)[20].

22 Farming practices such as cultivating cover crops or maintaining levels of soil organic matter are beneficial for both climate change mitigation and adaptation[21]. For **adaptation**, the income from direct payments increases farms' capacity to deal with negative shocks from climate change[22]. A dependence on direct payments, however, may maintain non-viable farms, slowing structural changes that could be necessary for adaptation[23].

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[18] European Court of Auditors, special report 16/2021: Common Agricultural Policy and climate: Half of EU climate spending but farm emissions are not decreasing.

[19] Brady, M. et al.: Impacts of Direct Payments, 2017, pp. 70, 88-89; M'barek, R. et al.; Scenar 2030 - Pathways for the European agriculture and food sector beyond, 2020, p. 144.

[20] Ibid.

[21] Chahal, I. et al. Cumulative impact of cover crops on soil carbon sequestration and profitability in a temperate humid climate, 2020.

[22] European Court of Auditors, special report 23/2019: Farmers' income stabilisation: comprehensive set of tools, but low uptake of instruments and overcompensation need to be tackled.

[23] Commission Evaluation study of the impact of the CAP on climate change and greenhouse gas emissions, Alliance Environnement, 2019, p. 113.

23 The Commission calculates the climate contribution of direct payments from both their greening, and non-greening components[24]. **Greening** refers to the adoption of agricultural practices benefiting climate and environment. Small farmers can benefit from greening without having to meet any greening requirement[25]. Nor do greening requirements apply to holdings considered 'green by definition' (e.g. organic farmers). **Non-greening** contributions are mostly justified through cross-compliance, which sets rules on environment, food safety, animal health and welfare, and land management.

24 As **greening** includes references to the climate objectives[26], according to the Commission's methodology it is climate-relevant, for an overall contribution of €28 billion. For this reason, the contribution of greening can be assessed as complying with the methodology. However, an evaluation study published by the Commission found the impact of greening on mitigation to be "highly uncertain, but probably low"[27]. Likewise, other studies flag only minimal impact of greening, with changes in farming practices on 2 - 5 % of farmland[28]. This is because greening requirements largely match pre-existing farm practices. In a previous report, we found that greening offered limited protection of the carbon stored in grassland and only marginally affected GHG emissions[29].

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[24] European Court of Auditors, review 01/2020: Tracking climate spending in the EU budget, Figure 7.

[25] Regulation (EU) 1307/2013 establishing rules for direct payments to farmers.

[26] Recitals 42 and 44 of Regulation (EU) 1307/2013 establishing rules for direct payments to farmers.

[27] Commission Evaluation study of the payment for agricultural practices beneficial for the climate and the environment, Alliance Environnement and the Thünen Institute, 2017.

[28] European Court of Auditors, special report 21/2017: Greening: a more complex income support scheme, not yet environmentally effective, paragraph 28 and Figure 5; Gocht, A. et al.: Economic and Environmental Impacts of CAP Greening: CAPRI Simulation Results, 2017; Louhichi, K. et al.: Economic impacts of CAP greening: application of an EU-wide individual farm model for CAP analysis (IFM-CAP), 2017.

[29] European Court of Auditors, special report 21/2017: Greening: a more complex income support scheme, not yet environmentally effective, paragraphs 43-46.

25 According to the Commission, 20 % of the **non-greening** budget makes a moderate contribution to climate action (40 % coefficient), and accounts for €17.5 billion. This results in a net 8 % contribution from the non-greening component. The Commission justifies the 20 % weighting factor as a proxy for the penalty for cross-compliance infringements. We assessed the contribution of non-greening to climate action to be negligible (***Table 2***).

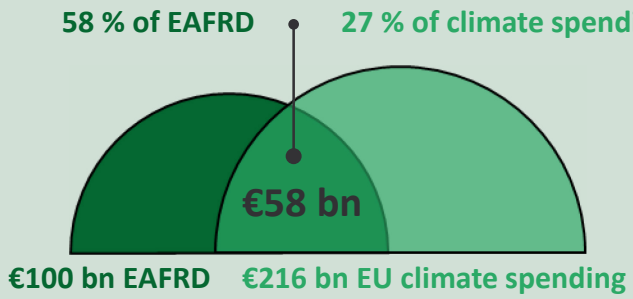
Table 2 – ECA assessment of non-greening contribution to climate action

Non-greening component and climate coefficient applied	ECA assessment using the Commission's methodology, and impact on reporting	
Non-greening component contribution: €17.5 billion		
Cross-compliance: (minimum soil cover) (soil erosion) (organic matter in soil) 40 % x 20 % 8 %	➲ the level of penalty in practice is significantly below 20 % – often farmers just get an early warning, and no penalty at all[a,b,c]; ➲ penalties do not apply to small farmers, the level of compliance varies and breaches occur[b,c,d]; ➲ an evaluation study flags the risk of deadweight as Member States may align cross-compliance rules with existing practices[e]; ❗ a total contribution of 8 % is insignificant, rather than moderate.	0 % **€17.5 billion likely overestimation**

Source: **a:** European Court of Auditors, review 01/2020: Tracking climate spending in the EU budget, paragraph 27; **b:** European Court of Auditors, special report 26/2016: Making cross-compliance more effective and achieving simplification remains challenging, p. 29; **c:** European Court of Auditors, special report 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short; **d:** Commission, DG AGRI - Annual Activity Report for 2019; Annexes, p. 192; **e:** Commission Evaluation study of the impact of the CAP on climate change and greenhouse gas emissions, Alliance Environnement, 2019, p. 96.

Box 3 – Contribution to 2014-2020 climate reporting: rural development

The **European Agricultural Fund for Rural Development (EAFRD)** co-finances EU rural development under the CAP. It aims to make the agriculture and forestry sectors more competitive, improve the environment and quality of life in rural areas and encourage the diversification of the rural economy.



Source: ECA, based on Commission reporting.

26 The impact of rural development funding on climate change **mitigation** is unclear. According to one Commission study, without rural development spending, agricultural production would decrease and EU GHG emissions from agriculture could be 1.6 % lower by 2030[30]. However, reductions in EU GHG emissions would be compensated to an extent by increases in non-EU countries (see paragraph ***21***). Another Commission evaluation estimates that some rural development measures (mostly Natura 2000) reduce GHG emissions from agriculture by 1.1 %. The evaluation acknowledges, however, that its estimate exaggerates the impact of Natura 2000 payments and involves some double counting[31]. In a previous ECA report, we found that rural development support was rarely used for effective mitigation practices[32]. Rural development payments can contribute to climate change **adaptation** (see paragraph ***22*** and ***Table 3***).

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[30] M'barek, R. et al.; Scenar 2030 - Pathways for the European agriculture and food sector beyond, 2020, pp. 115, 144.

[31] Commission Staff Working Document on Evaluation of the impact of the Common Agricultural Policy on climate change and greenhouse gas emissions, pp. 23-24.

[32] European Court of Auditors, special report 16/2021: Common Agricultural Policy and climate: Half of EU climate spending but farm emissions are not decreasing, paragraph VII.

27 To calculate the proportion of rural development spending contributing to climate action, the Commission assigns climate coefficients to various EAFRD priorities and focus areas. For example, priority 4 of the EAFRD, "Restoring, preserving and enhancing ecosystems related to agriculture and forestry" and priority 5 "Resource-efficient, climate-resilient economy", has a 100 % climate coefficient. While priority 5 has climate as a stated objective, priority 4 does not, although the Commission considers that a significant impact on climate change mitigation and adaptation is expected. A previous ECA report found little in case studies, literature review or the Commission's internal notes to support the 100 % climate coefficient for priority 4[33]. ***Table 3*** shows our assessment of the most significant priority 4 measures.

[33] European Court of Auditors, special report 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, Annex.

Table 3 – ECA assessment of EAFRD priority 4 contribution to climate action

EAFRD measure and climate coefficient applied	ECA assessment using the Commission's methodology, and impact on reporting	
Areas facing natural or other specific constraints €16.1 billion		
 100 %	➲ do not directly address climate change[a]; ➲ prevent land abandonment[a] (prevent wildfires), but also prevent ecological restoration (afforestation)[b]; ➲ provide incentives to maintain agricultural production and therefore GHG emission levels[b].	 0 % **€16.1 billion likely overestimation**
Agri-environment-climate measures €15.7 billion		
 100 %	➲ support climate-friendly practices (e.g. cover crops, soil carbon content)[a,b]; ➲ have a strong focus on biodiversity[b]; ➲ some schemes have no or very limited impact on climate (e.g. crop diversification)[b,c].	 40 % **€9.4 billion likely overestimation**
Organic farming €7.5 billion		
 100 %	➲ conversion to organic farming leads to reduced emissions and better soil quality (if less fertiliser used)[d]; ➲ can increase climate change adaptation through diverse production, but some tools (e.g. biotechnology, pesticides) cannot be used[e]; ➲ lower yields from organic farming may lead to more production and emissions elsewhere[d].	 40 % **€4.5 billion likely overestimation**

Source: ECA, based on: **a:** Commission Evaluation of the impact of the CAP on climate change and greenhouse gas emissions, SWD(2021) 115, pp. 40, 53; **b:** Commission Evaluation study of the impact of the CAP on climate change and greenhouse gas emissions, 2019, pp. 19, 127, 129, 245; **c:** European Court of Auditors, special report 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, paragraph 52; **d:** Smith, L. G. et al, The greenhouse gas impacts of converting food production in England and Wales to organic methods, p. 4, 2019; **e:** Purnhagen, K.P., et al, Europe's Farm to Fork Strategy and Its Commitment to Biotechnology and Organic Farming: Conflicting or Complementary Goals?, pp. 603, 605, 2021.

28 In a 2016 report, we looked at "fostering local development in rural areas" (priority 6B) and found that it made no significant overall contribution to climate objectives[34]. Our project analysis (see ***Table 4***) confirms that the 40 % climate coefficient was not justified.

Table 4 – ECA assessment of EAFRD priority 6B contribution to climate action

 **Basic services and village renewal in rural areas**	 **Community-led local development**
€4.8 billion	**€6.8 billion**
Projects can include investments in renewable energy or energy savings, but our testing showed that most projects were either unrelated to climate or potentially harmful (e.g. building infrastructure).	Our testing confirmed that these projects mostly concerned social or economic aspects and made an insignificant contribution (if any) to climate action.
Of the **17** projects funded under this measure sampled for our statement of assurance for the 2014-2020 period: **-> ten** concerned local roads (negative impact on climate); **-> two** were linked to climate action.	Of the **78** EAFRD projects sampled for our special report on this measure[35]: **-> one** was linked to climate action. Of the **18** projects funded under this measure sampled for our statement of assurance for 2014-2020: **-> one** was linked to climate action.
 **€11.6 billion likely overestimation**	

Note: these samples were used in the context of other audits, and they support our conclusions on linkages to climate.
Source: ECA.

[34] Ibid.

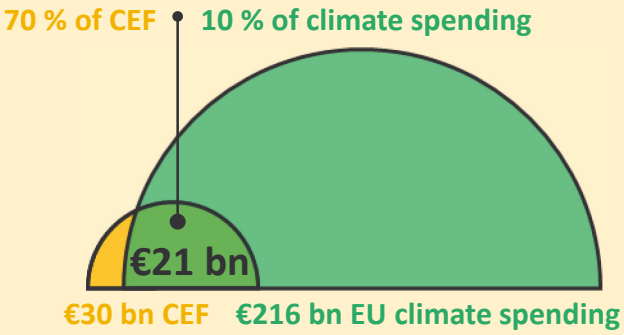
[35] European Court of Auditors, special report 10/2022, on LEADER and community-led local development.

Some inconsistent assumptions in assessing climate contribution of infrastructure and cohesion funding

29 Most EU infrastructure and cohesion spending is channelled through the Connecting Europe Facility (CEF), the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). Their main features and contributions to 2014-2020 climate reporting are summarised in ***Box 4*** and ***Box 5***.

Box 4 – Contribution to 2014-2020 climate reporting: Connecting Europe Facility (CEF)

The **CEF** supports priority investments in the energy, transport and telecommunications sectors. This includes projects on cross-border energy infrastructure, cleaner modes of transport, high-speed broadband connections, and digital networks.



Source: ECA, based on Commission reporting.

30 The CEF's general objectives refer to the EU energy and climate targets (see paragraphs ***12***-***14***), thus covering **climate change mitigation**[36]. However, the Commission acknowledges that the CEF mostly funds projects that "ensure the good functioning of the EU internal market"[37]. Climate action objectives and criteria are not necessary for project approval: only 4 % of CEF transport projects by value (worth €0.9 billion) cited sustainable and efficient transport as their main funding objective,

[36] Article 3(a) of Regulation (EU) 1316/2013 establishing the Connecting Europe Facility.

[37] Commission Mid-term evaluation of the Connecting Europe Facility, SWD(2018) 44.

according to the Commission[38]. Yet transport accounts for about a quarter of the EU's GHG emissions, with the largest proportion generated by road transport[39].

31 In terms of **adaptation**, upgraded railway projects might include targeted flood prevention investments along railway lines, reinforced embankments or climate disaster adaptation measures through monitoring systems for tunnels and bridges[40]. Given the data available, it is not possible to quantify these investments.

32 To calculate the proportion of CEF expenditure labelled as climate spending for 2014-2020, the Commission retroactively applied the climate coefficients from the post-2020 CEF Regulation[41], although similar projects under the cohesion policy are treated differently (see paragraph ***40***). Our analysis showed that the coefficients used by the Commission for the most significant CEF sub-sectors were generous (see ***Table 5***).

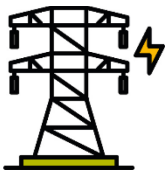
[38] Commission, Investing in European networks – The Connecting Europe Facility. Five years supporting European infrastructure, p. 21.

[39] Commission, EU transport in figures — statistical pocketbook 2020.

[40] Quinn, A. et al. Rail Adapt: Adapting the railway for the future. UIC (International Union of Railways), November 2017.

[41] Recital 5 of Regulation (EU) 2021/1153 establishing the Connecting Europe Facility.

Table 5 – ECA assessment of the most significant CEF sub-sectors' contribution to climate action

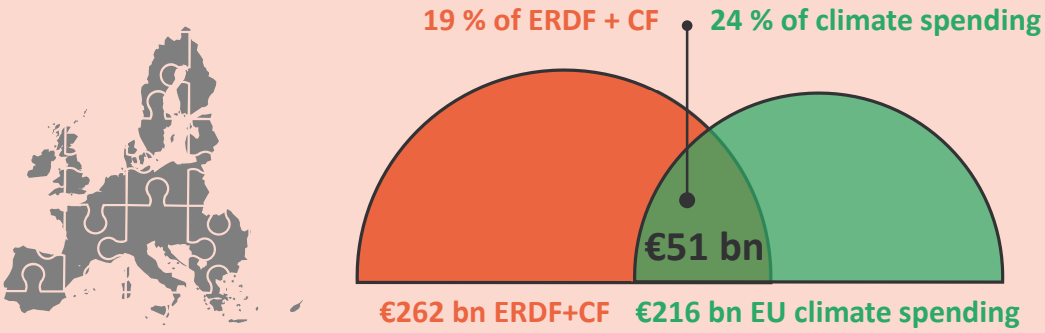
CEF sub-sector and climate coefficient applied	ECA assessment using the Commission's methodology, and impact on reporting	
Transport: rail €15.3 billion		
 Projects mostly involve modernisation of railways. 	↑ rail transport among most efficient forms of transport in terms of GHG emissions[a]; ➲ railways only achieved modest reduction in CO_2 emissions, particularly where electricity source was still fossil fuels[a]; ↓ GHG emissions from railway infrastructure construction greater than for other modes of transport: railways may need from five years to several decades to offset these emissions[a,b]; ↓ similar railway projects assigned **40 %** climate coefficient under cohesion policy[c].	 **€9.2 billion likely overestimation**
Energy: electricity €2.8 billion		
 Projects mostly concern energy connections and related studies. 	↑ projects can support the integration of renewable energy sources[d]; ➲ electricity does not necessarily mean a clean source of energy, as only 37 % of electricity consumed in EU-27 in 2020 was generated from renewables[d,e]; ↓ similar energy transmission projects assigned **0 %** climate coefficient under cohesion policy[c].	 **€1.7 billion likely overestimation**

Source: **a:** Pritchard J. A., The potential of the railway to reduce greenhouse gas emissions, 2011, pp. 942, 945-946, 949; **b:** Olugbenga O., Embodied emissions in rail infrastructure: a critical literature review, 2019, p. 14; **c:** Regulation (EU) 215/2014 with regard to methodologies for climate change support; **d:** EEA Report 13/2020, Trends and projections in Europe 2020, 2020, p. 29; **e:** Eurostat, Statistics on renewable energy (SHARES summary results 2020).

Box 5 – Contribution to 2014-2020 climate reporting: European Regional Development Fund (ERDF) and Cohesion Fund (CF)

The EU's cohesion policy aims to reduce economic, social and territorial disparities within the EU. In 2014-2020:

- the **ERDF** financed projects addressing investment priorities such as: innovation and research, the digital agenda, support for small and medium-sized enterprises, and the low-carbon economy;
- the **CF** financed infrastructure projects in the fields of transport and environment in EU Member States with a Gross National Income per inhabitant below 90 % of the EU average.



Source: ECA, based on Commission reporting.

33 EU legislation provides the framework for accounting for climate spending under the cohesion policy funds[42]. The Commission and the Member States manage the ERDF and the CF jointly. Member States are responsible for project selection and reporting to the Commission. The Commission receives consolidated information from Member States divided according to the relevant intervention fields defined in the legislation. These are assigned specific climate coefficients.

34 The Commission has a comprehensive, publicly available platform that compiles climate tracking by cohesion policy fund, Member State and programme[43]. One study found that the ERDF and CF climate coefficients for 2014-2020 generally reflected the contribution made to **climate change mitigation and adaptation**[44]. However, we noted some issues for biomass projects and gas infrastructure (see ***Figure 8***).

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[42] Regulation (EU) 215/2014 with regard to methodologies for climate change support.

[43] Public dashboard for European Structural and Investment Funds.

[44] Nesbit, M. et al. Documenting climate mainstreaming in the EU budget: making the system more transparent, stringent and comprehensive. European Parliament, 2020, pp. 18-20.

Figure 8 – Issues with ERDF and CF contribution to climate spending

Biomass projects

Literature shows that using biomass may lead to GHG emissions equivalent to or higher than emissions from fossil fuels (e.g. use of tree stumps or woody debris).

Current legislation considers that biomass use for energy generation makes a significant contribution to climate action (100 % coefficient). This is not always justified: a 40 % coefficient is more reasonable.

Likely overestimation: €0.7 billion.

Ports and inland waterways: gas infrastructure component

Gas is a fossil fuel. Gas projects do not offer a sustainable, long-term solution moving away from fossil fuels. They also raise the risk of "carbon lock-in", when long-lived infrastructure hinders GHG-emission reduction.

Some seaports, inland ports or waterways include Liquefied Natural Gas terminals, which benefit from a 40 % coefficient, despite the fact that they may include infrastructure that locks in GHG emissions.

Amount at risk*: €0.7 billion.

**Note:* The amount at risk refers to the total amount invested in seaports, inland ports or waterways, given the lack of information on the gas component of those projects.
Source: ECA, based on: Camia A. et al., The use of woody biomass for energy purposes in the EU, 2021, pp. 86, 143-147; Fisch-Romito, V. et al., Systematic map of the literature on carbon lock-in induced by long-lived capital. Environmental Research Letters; Brauers, H. et al., Liquefied natural gas expansion plans in Germany: The risk of gas lock-in under energy transitions. Energy Research & Social Science.

Overall reporting on climate spending is unreliable

35 The methodology used to report on climate spending should account for all relevant funding for climate action. It should use reliable estimates, based on proven contributions to climate objectives. It should not involve a heavy administrative burden. The Commission and the Member States should apply it consistently across the EU budget. The Commission should have checks and controls in place to ensure the reliability of climate reporting.

Limitations and inconsistent application of methodology

36 The OECD Development Assistance Committee (OECD DAC) designed the Rio markers (see paragraph ***05***) to monitor aid to developing countries, based on the link between funding objectives and climate change mitigation and adaptation. The markers are qualitative in nature, as the OECD DAC did not intend to produce exact figures, but to provide an indication of the level of climate financing.

37 The Commission adapted the OECD model and applied it across its public spending, quantifying climate expenditure from the EU budget (see ***Figure 2***). The Commission points out that the main advantages of this method are the low administrative burden and ease of application[45]. Nonetheless, a methodology based on stated objectives or expected contribution to climate action involves significant approximations: the Rio markers "do not allow for an exact quantification" of the tracked spending[46].

38 The EU budget encompasses many objectives that must coexist with climate objectives, such as promoting social, economic and territorial cohesion. It is inherently difficult to avoid conflict between objectives and weigh a programme's contribution to each one. For example, cohesion funding aims to reduce disparities between Member States and regions, but funding infrastructure to support economic development may increase GHG emissions. The methodology for tracking climate spending considers only the potential positive impact on climate, and does not track the potential negative impact on climate of measures that serve other EU objectives (see ***Figure 9***).

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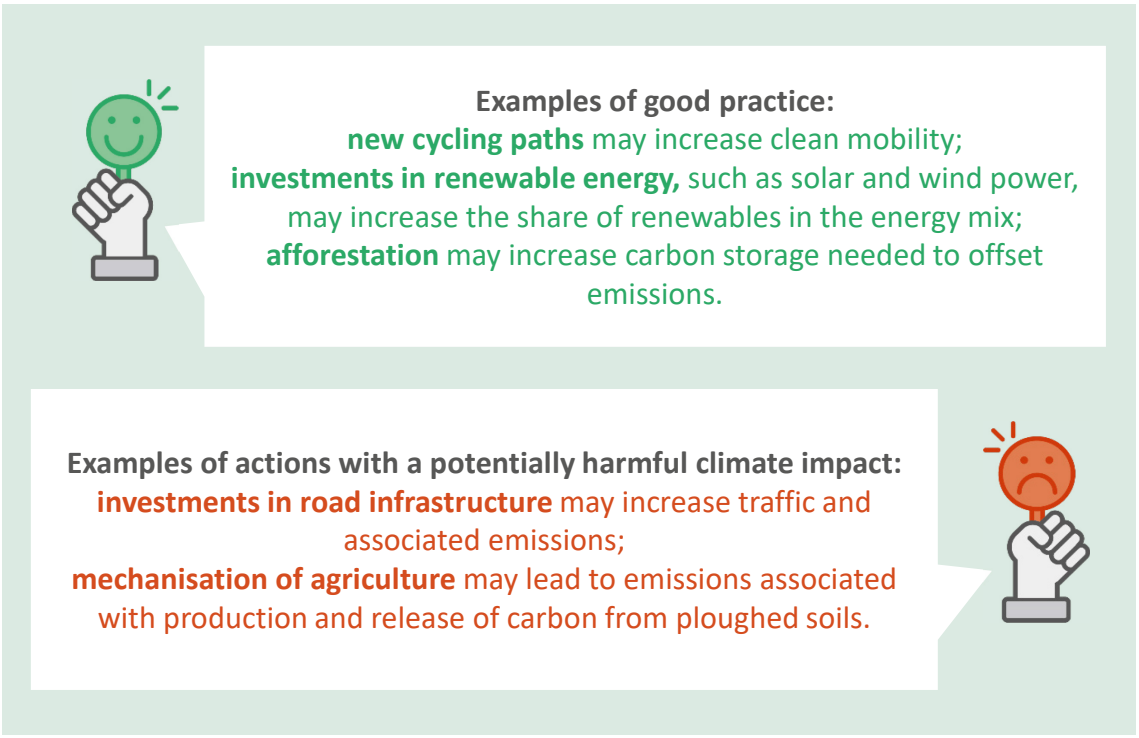
[45] European Court of Auditors, review 01/2020: Tracking climate spending in the EU budget, Figure 5.

[46] Cremins, A. and Kevany, L., An Introduction to the Implementation of Green Budgeting in Ireland, Staff Paper 2018, p. 12.

Figure 9 – Examples of funded actions with beneficial or potentially harmful effects on climate



Source: ECA.

39 The current tracking method is an *a priori* exercise, which does not evaluate the final contribution towards EU climate goals. The methodology does not require quantification of the impact of spending on GHG emissions or set any specific indicators regarding adaptation. The Commission acknowledges that monitoring of delivery of results is key to ensure the effectiveness of the mainstreaming effort[47], but it has not put in place a system for monitoring climate results.

[47] Commission, A budget for Europe 2020, COM(2011) 500, Part II, p. 15.

40 The Commission flagged the need for common tracking procedures for climate expenditure[48]. Our work revealed various other inconsistencies in applying the methodology for calculating climate spending:

- Legal basis for methodology: the applicable coefficients (and the rationale for using them) were set in the legislation for the European Structural and Investment Funds (see paragraph ***04***), but not in that for other funds (e.g. EAGF, CEF and Horizon 2020). It was therefore possible to adjust the coefficients retroactively (see paragraph ***46***).

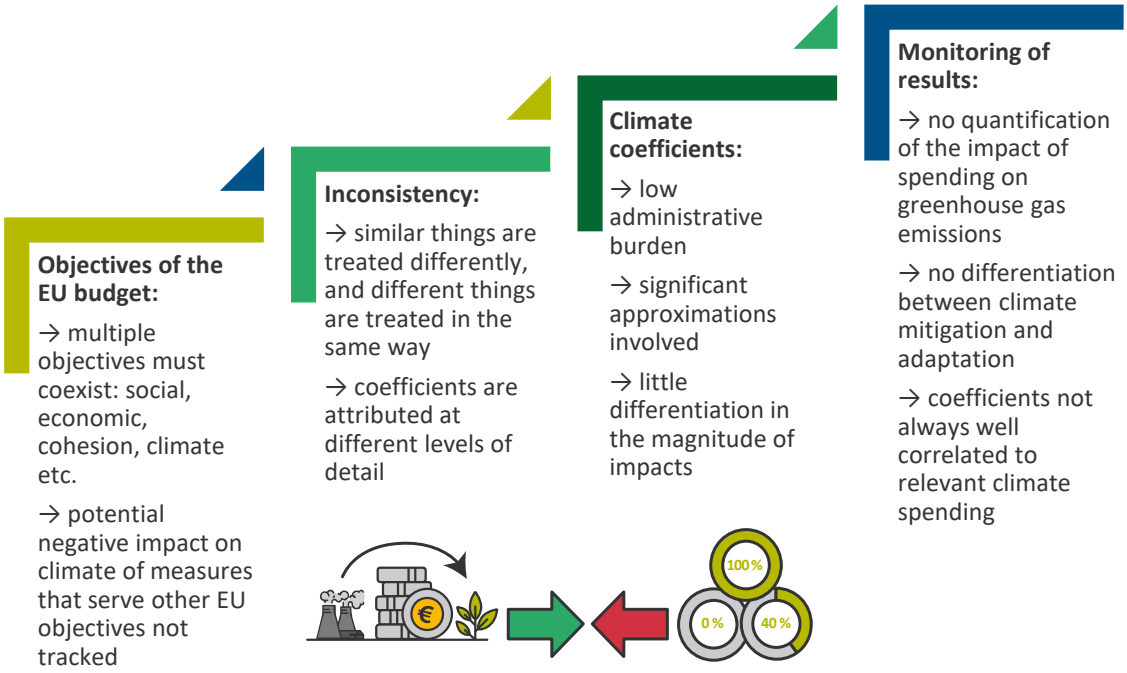
- Choice of coefficients: similar projects received different coefficients. For example, rail transport projects in the trans-European network received a higher marker under the CEF (100 %) than under the ERDF and CF (40 %). We identified ten air transport projects under Horizon 2020, which received different coefficients, despite having similar descriptions and objectives. The same rural development measure can receive different coefficients depending on the focus areas to which it is assigned.

- Granularity (level of detail in a dataset): coefficients are attributed at different levels of detail, e.g. project level (CEF), intervention field (ERDF), focus area or priority (EAFRD), and budget line (EAGF).

41 When reporting on climate spending, the Commission does not differentiate between climate change mitigation and adaptation. Aggregating adaptation and mitigation under a common marker means that it is not possible to calculate the share of the EU budget dedicated to each. The Commission's reporting on development and cooperation assistance is the exception, as it differentiates between the two. In line with OECD methodology, the Commission assigns separate climate coefficients for mitigation and adaptation, and reports on both dimensions to the OECD. ***Figure 10*** presents the features of the Commission's methodology.

[48] Ibid.

Figure 10 – The main features of the Commission's methodology



Source: ECA.

42 The Commission notes that some Member States – Ireland, France, Italy, the Netherlands, Finland, Sweden and, to a certain extent, Denmark – report on their budgetary policy from an environmental or climate angle[49]. The French government uses a comprehensive method to report on the environmental impact of its national budget (i.e. green budgeting), covering both revenue and expenditure. The French model keeps track of both the positive and negative environmental contributions of the national budget. ***Table 6*** offers a comparative analysis of the French and EU models.

[49] Commission, Green Budgeting Practices in the EU: A First Review, Discussion Paper, 2021, p. 22.

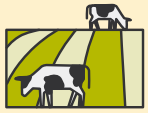
Table 6 – Comparative analysis of the French and EU models for climate/environment reporting

Feature		French model	EU model
Reporting dimensions		Climate change adaptation	Climate action
		Climate change mitigation	
		Biodiversity	Biodiversity
		Water management	*Not tracked*
		Pollution	Clean air
		Circular economy & waste	*Not tracked*
Reporting on…		**…environment and climate**	**…climate**
Differentiation between climate change mitigation and adaptation		Yes 	No  except EU development and cooperation aid funding, in line with OECD reporting obligations
Basis of assessment		A wide range of impacts and various time horizons	Expected contribution to climate objectives
Accounting for potential negative impact of public spending		Yes 	No 
Markers		Five (-1 = unfavourable impact; 0 = no impact; 1 to 3 = favourable impact)	Three (0 %, 40 % and 100 %) – see ***Table 1***
Quantification of relevant expenditure within the budget		 **Favourable 6.6 %** **Mixed 0.9 %** **No impact 90.8 %** **Unfavourable 1.7 %**	 **Favourable 20.1 %** **No impact 79.9 %**

Source: ECA, based on French Government, Report on the Environmental Impact of the Central Government Budget, 2020; Commission 2020 Annual Management and Performance Report for the EU budget.

43 The Commission acknowledges the importance of climate target setting in all relevant policy areas[50], yet not all relevant programmes were assigned a target. *Table 7* shows examples of climate-relevant policy areas and their spending targets set in legislation for 2014-2020. These targets could steer the EU budget towards greener expenditure, but were not set consistently across the budget.

Table 7 – Examples of climate-relevant policy areas and their spending targets set in legislation for 2014-2020:

	Programme		Spending target	Legal basis
No target relevant to climate	**CEF**		No climate target	
Environment and climate targets	**EAGF**		30 % to be spent on "greening"	Article 47 of Regulation (EU) 1307/2013
	EAFRD		At least 30 % for action on climate and environment	Article 59(6) of Regulation (EU) 1305/2013
Climate targets	**ERDF**		From at least 12 % to at least 20 % for supporting the shift towards a low-carbon economy	Article 4 of Regulation (EU) 1301/2013
	Horizon 2020		At least 35 % for climate action	Recital 10 of Regulation (EU) 1291/2013
	DCI		At least 20 % for climate action	Recital 20 of Regulation (EU) 233/2014

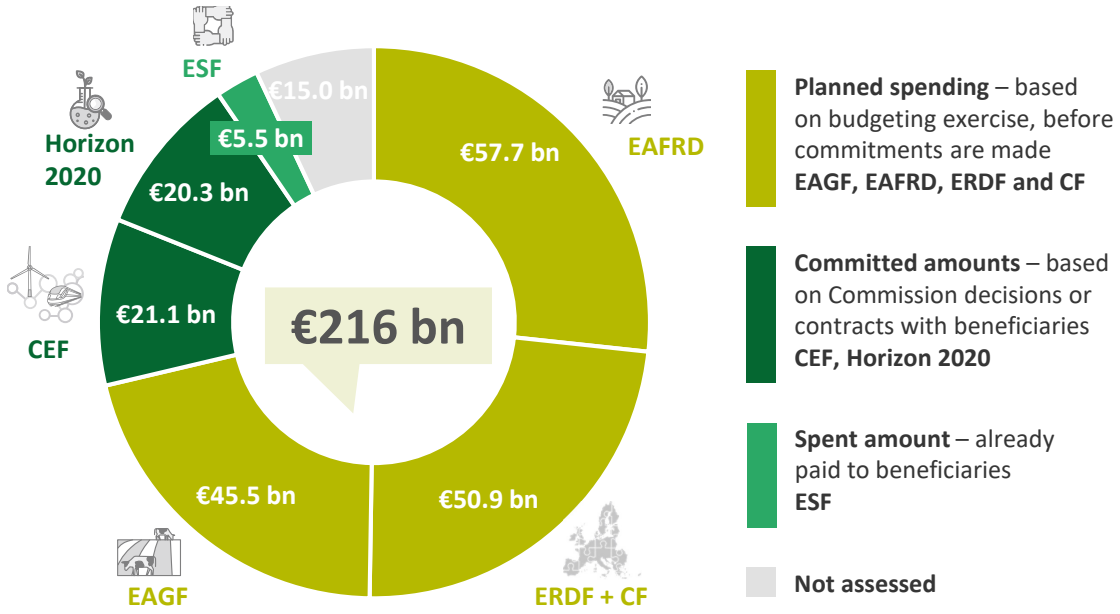
Source: ECA, based on above-mentioned legislation.

[50] Commission, A budget for Europe 2020, COM(2011) 500, Part II, p. 15.

Reported climate expenditure not necessarily spent

44 For 2014-2020, the Commission reported about €216 billion as "spending on climate"[51]. However, it generally bases its reporting on planned or committed amounts (see ***Figure 11***). The ESF is the exception, as in this case the Commission uses the actual amounts spent, although it combines EU and Member State spending (see ***Box 6***).

Figure 11 – Different basis used for Commission climate reporting



Source: ECA, based on Commission climate reporting.

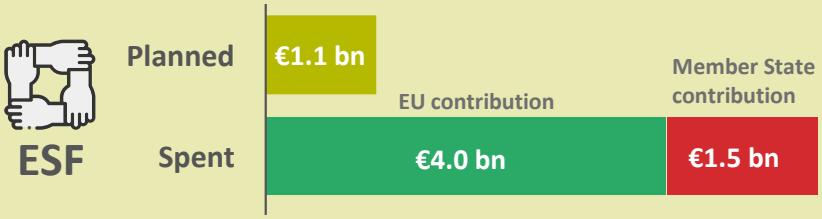
[51] Commission, 2020 Annual Management and Performance Report for the EU budget, Volume I, 2021, p. 8-9.

Box 6 – Climate reporting for ESF in 2014-2020

Unlike with other funding programmes, the Commission reports climate spending under the ESF based on **spent amounts**.

As national authorities flagged a greater number of projects as climate-relevant than initially expected, **reported** climate-related spending for ESF grew from €1.1 billion to €5.5 billion, which represents a 400 % increase.

We found that the Commission included both EU and Member State spending, thus overstating EU spending by €1.5 billion or 38 %.



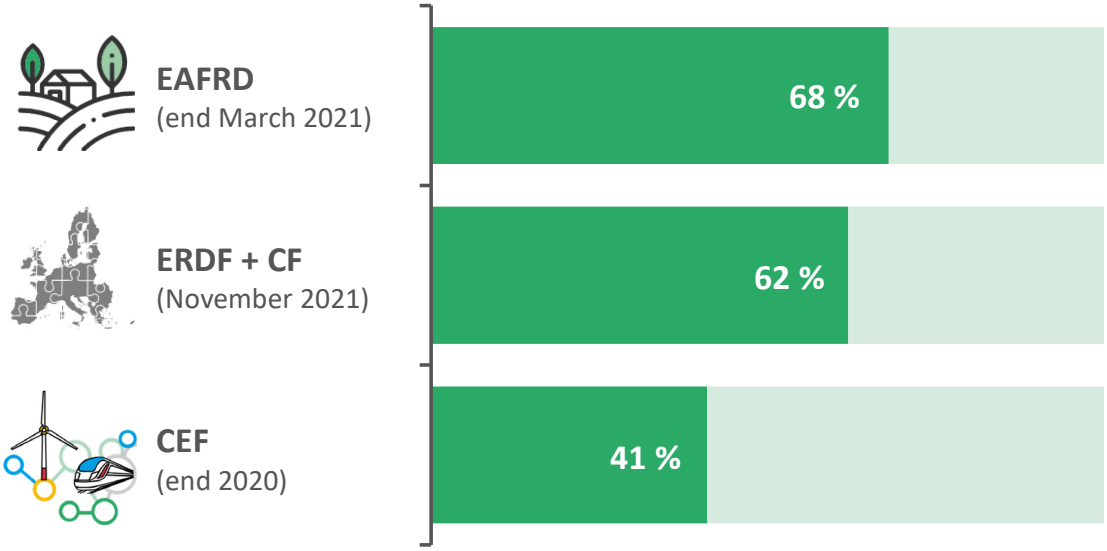
Source: Public dashboard for European Structural and Investment Funds (accessed on 22/11/2021); Commission 2020 Annual Management and Performance Report for the EU budget, Commission internal documents.

45 When reported figures are based on planned or committed amounts, they are inflated by unused or not disbursed funds (e.g. project delays, late payments or low maturity of projects)[52], see ***Figure 12***. In a 2018 report, we noted the impact that this had on the 2007-2013 period[53].

[52] European Court of Auditors, special report 19/2019: INEA: benefits delivered but CEF shortcomings to be addressed, paragraph IV.

[53] European Court of Auditors, special report 17/2018: Commission's and Member States' actions in the last years of the 2007-2013 programmes tackled low absorption but had insufficient focus on results.

Figure 12 – Spending as a percentage of budgeted amount (selected project-based funds 2014-2020)



Note: Data subject to change due to database updates.
Source: ECA, based on: quarterly declaration of expenditure, March 2021 (EAFRD); Public dashboard for European Structural and Investment Funds as at 22/11/2021 (ERDF and CF); Commission, Annual Management and Performance Report for the EU Budget, volume III, 2021, p. 26 (CEF).

46 In some cases, the Commission reassessed expenditure retroactively and adjusted climate-spending figures accordingly. For example, under the CEF, the Commission retroactively reassessed transport and energy projects using the 2021-2027 methodology. It then increased the CEF 2014-2020 climate contribution by 91 %, from €11 billion to €21 billion (see paragraph ***32***). Similarly, in 2018, additional evaluations of Horizon 2020 topics and projects led to an increase of 41 % of the 2017 contribution to climate spending from Horizon 2020. We found that the climate coefficients used for nine of the 24 Horizon 2020 projects we examined were not reasonable, as they had a weaker link to climate action than claimed. For these projects, we identified an overestimation of around €0.3 bn (1 % of the Horizon 2020 climate-related amount).

Limited improvements expected in the 2021-2027 climate reporting

47 EU financial support for 2021-2027 has two main components, the MFF budget and the NGEU (see ***Figure 3***). Climate tracking and reporting should build on the lessons learned in 2014-2020 and provide reliable figures on climate spending.

New MFF climate reporting

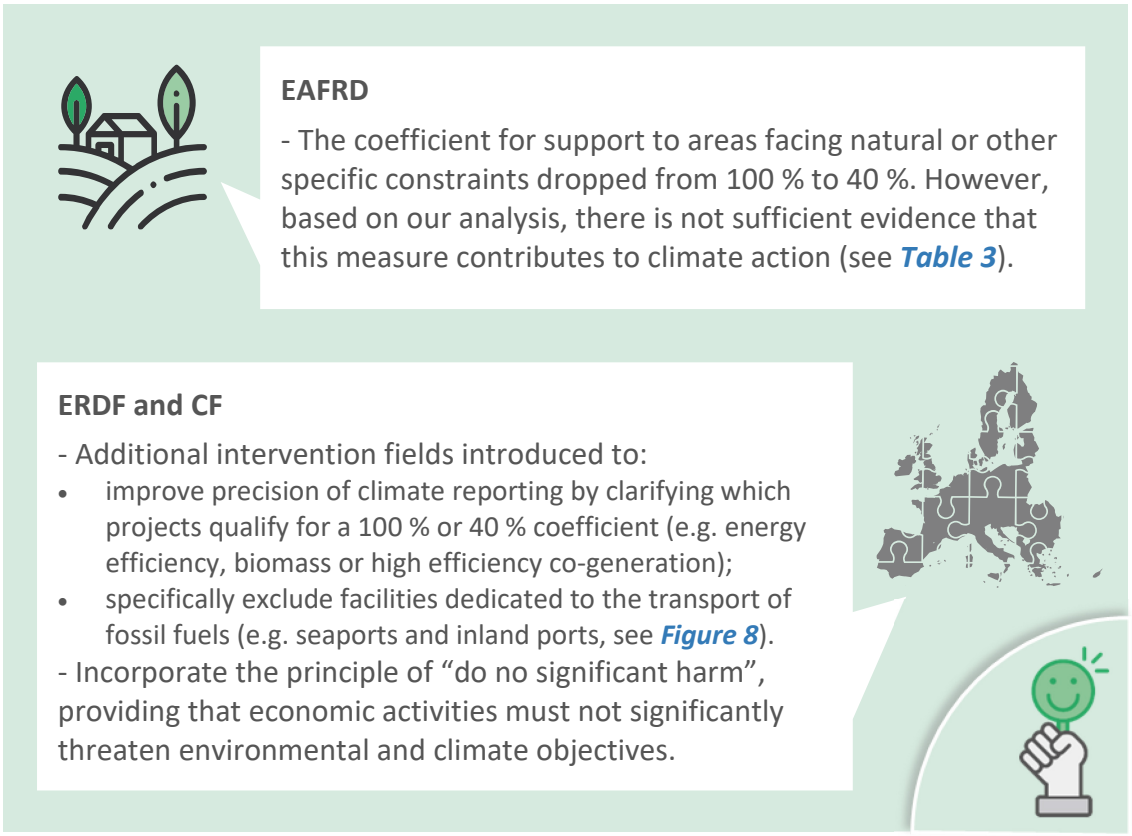
48 To support the higher 30 % target for the EU budget contribution to climate objectives in 2021-2027, EU legislation has set targets for specific programmes' contribution to climate action (e.g. CEF - 60 %, ERDF - 30 %, CF - 37 %, Horizon Europe - 35 %, Neighbourhood, Development and International Cooperation Instrument - 30 %)[54]. Overall, these targets push for an increased focus on climate action in various policy areas.

49 In many policy areas (e.g. CEF, ESF, DCI) climate tracking under the 2021-2027 MFF remains essentially the same as for 2014-2020. In other areas (e.g. EAGF, EAFRD, ERDF, CF), the Commission adjusted or clarified the climate coefficients for some funding programmes to improve alignment with their actual contribution to climate action (see ***Figure 13***). The Commission notes that it is developing its climate reporting, taking into account the expected effects of spending and ensuring consistency in applying coefficients to similar projects[55].

[54] Recital 5 of Regulation (EU) 2021/1153 establishing the Connecting Europe Facility; Article 6(1) of Regulation (EU) 2021/1060 laying down common provisions on, among others, the ERDF and the CF; Article 7(10) of Regulation (EU) 2021/695 establishing Horizon Europe; Recital 49 of Regulation (EU) 2021/947 establishing the Neighbourhood, Development and International Cooperation Instrument.

[55] Commission, The performance framework for the EU budget under the 2021-2027 MFF, COM(2021) 366, p. 7.

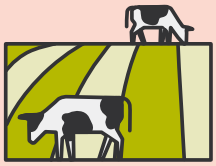
Figure 13 – Examples of improvements in climate reporting for 2021-2027



Source: Article 100(3) of Regulation (EU) 2021/2115 establishing rules on support for strategic plans under the common agricultural policy; Annex I of Regulation (EU) 2021/1060 laying down common provisions on, among others, the ERDF and the CF.

50 The proposed changes entail further risks and challenges for reliable reporting on climate spending (see ***Figure 14***).

Figure 14 – Examples of problematic changes in climate reporting for 2021-2027



EAGF and EAFRD

- A 40 % coefficient for **income support**[a]: we have already questioned the contribution of direct payments to climate (see paragraphs ***21***-***25***) and found the 40 % coefficient unrealistic and lacking in justification[b], a concern shared by other experts[c].
- A 100 % coefficient for **eco-schemes** and for **EAFRD interventions** fostering sustainable development, protecting biodiversity and enhancing ecosystem services[a]: while these might be relevant for climate action, they can address water quality, biodiversity or animal welfare, with limited or no links to climate action[d]. See our analysis on agri-environment-climate measures in paragraph ***27*** and ***Table 3***.

ERDF and CF

- A 100 % coefficient for:
  - **alternative fuels infrastructure**, which may hinder the transition towards zero-emission mobility, as this infrastructure could also be used for fossil fuels, particularly natural gas[e];
  - **railway projects** within the Trans-European Transport Network, which risks overestimating their impact on climate change mitigation (see ***Table 5***).

Source: **a:** Article 100(2) of Regulation (EU) 2021/2115 establishing rules on support for strategic plans under the common agricultural policy; **b:** European Court of Auditors, opinion 7/2018: concerning Commission proposals for regulations relating to the common agricultural policy for the post-2020 period, paragraph 38; European Court of Auditors, review 01/2020: Tracking climate spending in the EU budget, paragraphs 44-46; **c:** Matthews, A., Climate mainstreaming the CAP in the EU budget: fact or fiction, 2020; Bas-Defossez, F. et al., Keeping track of climate delivery in the CAP?, Report for NABU by IEEP, 2020; **d:** Article 31(4) of Regulation (EU) 2021/2115; **e:** Climate Action Europe, Climate mainstreaming and climate proofing: the horizontal integration of climate action in the EU budget – assessment and recommendations, 2018.

NGEU challenges

51 The European Union's Recovery and Resilience Facility (RRF) is the core of the NGEU and has a 37 % target for climate expenditure (see ***Figure 3***). Its objectives include contributing to the EU's 2030 and 2050 climate goals, and it now incorporates the principle of "do no significant harm" (see ***Figure 13***)[56]. Exceptionally, Member States may still support fossil fuel investments[57].

52 The "do no significant harm" principle is part of the EU system for defining sustainable financial products (EU Taxonomy)[58]. A 2021 ECA report flagged the risk that RRF climate spending would not meet the EU Taxonomy standards. As these standards apply to the EU green bonds, this could affect the willingness of the financial market to buy these bonds and finance the RRF[59].

53 According to the RRF Regulation, the Commission and the Member States are required to coordinate and foster synergies with other EU funds[60]. This may create opportunities for effective complementary actions, but also pose risks if coordination is inefficient.

54 The RRF funding will be based on national recovery and resilience plans. Member State devise these plans, the Commission assesses them, and the Council approves them on the basis of a Commission proposal. The Commission will calculate the RRF contribution to climate spending upfront, based on the estimated costs laid out in the plans[61].

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[56] Articles 4 and 5 of Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility.

[57] Commission Notice, Technical guidance on the application of "do no significant harm" under the Recovery and Resilience Facility Regulation, C(2021) 1054, pp. 7-8.

[58] Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment.

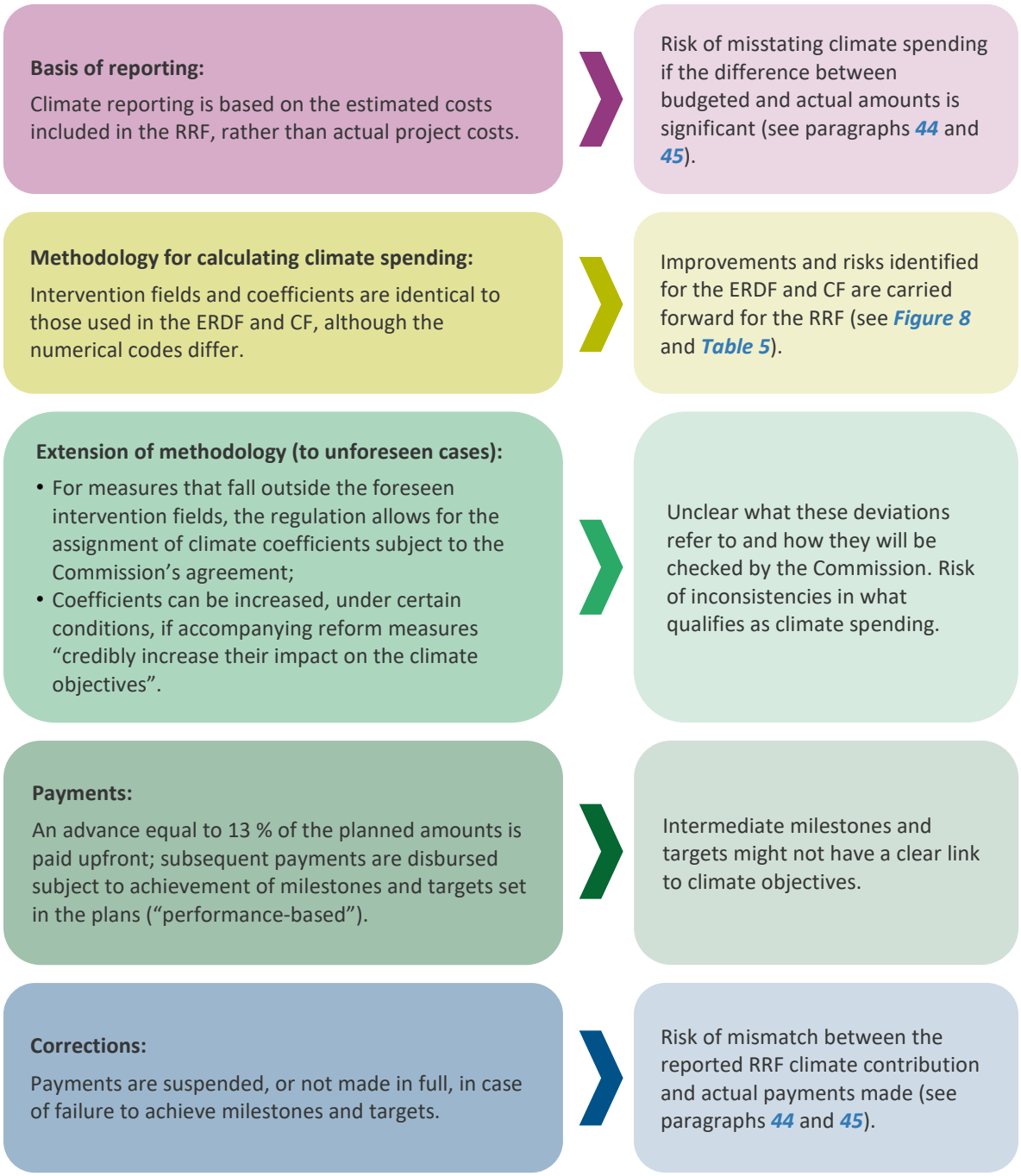
[59] European Court of Auditors, special report 22/2021: Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment, paragraph 90.

[60] Article 28 of Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility.

[61] Article 18(4)(e) and Annex VI of Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility.

55 The design of the plans and corresponding payments comes with some risks and challenges, as shown in ***Figure 15*** below. Checking compliance with the conditions for payments is the main responsibility of the Commission.

Figure 15 – Challenges regarding the RRF design for climate spending



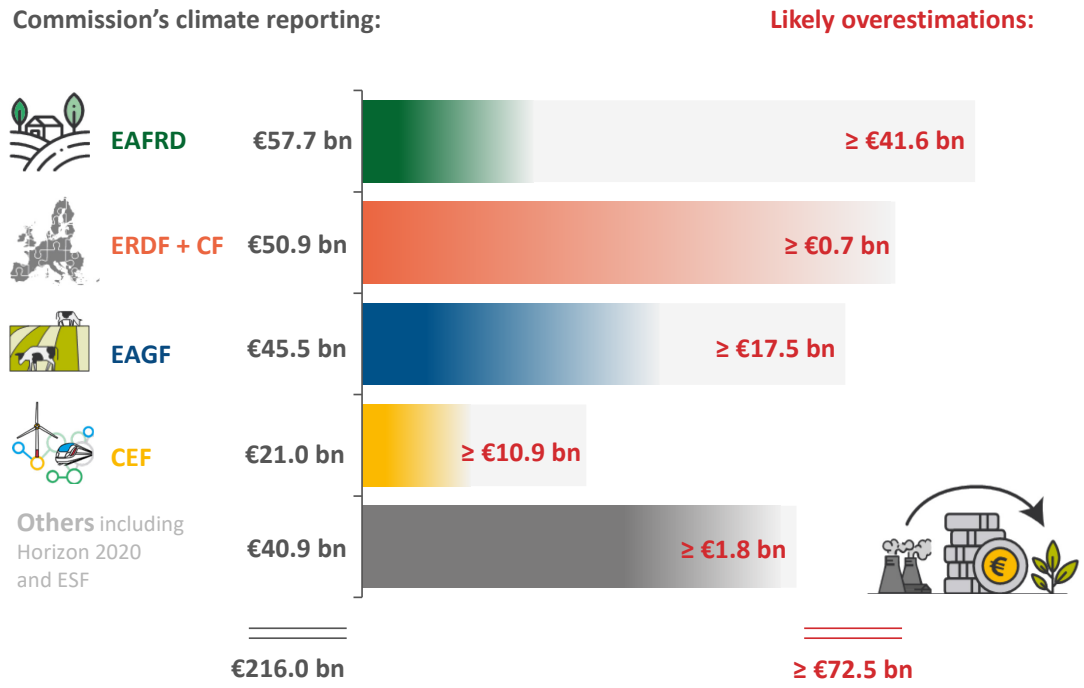
Source: ECA, based on Recital 23, Article 18(4)(e), Article 24, Annex IV and Annex V of Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility.

Conclusions and recommendations

56 The EU has adopted legislation in multiple policy areas to support climate action. It committed to spending at least 20 % of its 2014-2020 budget on climate action, reducing greenhouse gas emissions, increasing the use of renewables and improving energy efficiency. In 2021, the Commission reported that it had met this target (paragraphs ***01***-***14***).

57 We found that in some cases, there was no evidence to justify the climate contribution made by EU spending, while in others the contribution was overstated. Our analysis indicated that the Commission unduly recorded around €72 billion as climate spending (see ***Figure 16***). The more reasonable coefficients we applied reduced the likely share of the EU budget that is climate-relevant to around 13 % (approximately €144 billion) rather than 20 %.

Figure 16 – Commission climate reporting for 2014-2020 and likely overestimations



Source: ECA, using the Commission's methodology.

58 The Commission reported that 26 % of agricultural funding was climate-relevant, or about half of EU climate spending. However, farm greenhouse gas emissions in the EU have not decreased since 2010. According to our analysis, review of the relevant literature and evaluation studies, the Commission likely overestimated contributions from agricultural policy by almost €60 billion, or over 80 % of our likely overestimations (paragraphs ***19***-***34***). Funding should not count as climate-relevant if there is no evidence to support this.

Recommendation 1 – Justifying climate relevance of agricultural funding

The Commission should base its quantification of the contribution of the 2021-2027 agricultural policy to climate action on scientific evidence. In line with Article 100(3) of Regulation (EU) 2021/2115 establishing rules on support for strategic plans under the common agricultural policy, it should adjust the climate contribution accordingly, if needed.

Target implementation date: June 2026.

59 The Commission's reporting on climate spending was inconsistent. Rail and electricity projects, for example, were handled differently under the Connecting Europe Facility and the European Regional Development Fund. Among other issues, we noted that the Commission did not keep track of the potential negative effects of expenditure on climate, and did not differentiate between mitigation and adaptation (see paragraphs ***35***-***43***).

60 The Commission mixed non-comparable figures (planned, committed and spent amounts from different spending areas) when calculating the overall climate-spending figure. The Commission also over-reported the European Social Fund contribution, including Member State expenditure in EU spending. In addition, it retroactively reassessed reported climate spending for Connecting Europe Facility. This led to a significant increase in previously reported figures (paragraphs ***44***-***46***).

Recommendation 2 – Enhancing climate reporting

(a) The Commission should identify and report on EU spending with a potentially negative impact on climate. In doing so, it should build on the "do no significant harm" principle, as defined in the EU taxonomy.

(b) The Commission should issue guidelines applicable to all policy areas relevant to climate spending. In doing so, it should establish and clearly disclose a coherent basis for reporting, and consistent treatment of similar projects (e.g. same climate coefficient) across the EU budget and the NextGenerationEU.

(c) For each programming period, the Commission should enhance the current climate reporting to take stock of the unused (unspent and de-committed) amounts.

Target implementation date: June 2025.

61 For 2021-2027, the EU aims to spend 30 % of its budget on climate action. The Commission kept the same methodology, but made certain amendments. Some changes are an improvement, for example fine-tuning coefficients and enhancing target contributions to climate objectives. Others create further risks and issues such as climate coefficients lacking justification, inconsistencies in reporting for rail projects, options for fossil fuel use. This raises questions on the reliability of future climate reporting (paragraphs ***47***-***50***).

62 Improving on the 2014-2020 Multiannual Financial Framework, the Recovery and Resilience Facility incorporates the "do no significant harm" principle and the optional use of EU taxonomy criteria. However, we identified potential issues in its design and funding, particularly where milestones and targets triggering payments have no clear link to climate objectives (paragraphs ***51***-***55***).

63 The 2021-2027 EU budget pushes for an increased focus on climate action. However, it is unclear how much climate-spending targets can achieve in terms of reducing greenhouse gas emissions, increasing the use of renewable energy, and promoting energy efficiency. What ultimately counts is whether EU spending can effectively contribute to achieving climate and energy objectives. A climate-relevant budget needs a strong link to lower greenhouse gas emissions.

Recommendation 3 – Linking EU budget to climate and energy objectives

The Commission should report on the contribution made by climate spending to EU climate and energy objectives. It should focus in particular on how to measure the impact of the budget on mitigating climate change.

Target implementation date: December 2025.

This report was adopted by Chamber I, headed by Ms Joëlle Elvinger, Member of the Court of Auditors, in Luxembourg on 27 April 2022.

For the Court of Auditors

Klaus-Heiner Lehne
President

Annex — Previous ECA recommendations relevant for climate reporting

These previous recommendations are still relevant to climate reporting and complement the recommendations made in this report.

Special report	Recommendations to the Commission	Commission reply
 **SR 22/2021: Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment**	**3a)** disclose how much **InvestEU** financing is tracked using the EU Taxonomy; ➔ linked to ***Recommendation 3*** of this report	**Accepted.**
	3b) for **InvestEU:** report on the **climate related results, such as the actual reduction of greenhouse gas emissions**, of relevant completed financing operations ➔ linked to ***Recommendation 3*** of this report	**Accepted.**
	5a) apply the **"do no significant harm" principle** across the EU budget; ➔ linked to ***Recommendation 2*** of this report	**Partially accepted.** Where relevant and applicable, this principle has been included in relevant legislation. Uniform application of the EU Taxonomy's DNSH principle across the entire EU budget is neither feasible nor appropriate due to the diversity of EU spending programmes.
	5c) fully **integrate the EU Taxonomy criteria into the EU climate tracking** methodology as and when they become available; ➔ linked to ***Recommendation 2*** of this report	**Partially accepted.** The EU Taxonomy is subject to change over time. Relying on it would make a stable time series impossible. The detailed information needed to apply the Taxonomy is unavailable and Member States/implementing partners are not required to provide it.
	5d) complement the current reporting on the contribution of the EU budget to climate action by disclosing the **climate related EU expenditure that relates to applying a 100 % coefficient** based on the EU Taxonomy criteria. ➔ linked to ***Recommendation 2*** of this report	**Accepted.**

Special report	Recommendations to the Commission	Commission reply
 **SR 16/2021: Common Agricultural Policy and climate: Half of EU climate spending but farm emissions are not decreasing**	**1b)** assess Member States' CAP strategic plans in view of l**imiting the risk that CAP schemes increase or maintain greenhouse gas emissions** from agriculture. ➔ linked to ***Recommendation 1*** of this report	**Accepted.**
	1c) ensure the CAP provides effective **incentives to reduce greenhouse gas emissions from livestock and fertilisers** that contribute to achieving EU climate goals. ➔ linked to ***Recommendation 1*** of this report	**Accepted.**
	3a) set **monitoring indicators** that allow an annual assessment of the effect of the 2021-2027 CAP funded climate change mitigation measures **on net greenhouse gas emissions** and report them regularly. ➔ linked to ***Recommendation 3*** of this report	**Not accepted.** A meaningful assessment of the effects of these measures on net GHG emissions requires data over multiple years (the CAP not being the only factor driving GHG emissions). Such assessments will be addressed through evaluations, i.e. not annually.
 **SR 18/2019: EU greenhouse gas emissions: Well reported, but better insight needed into future reductions**	**2c)** assessing and reporting to the UNFCCC the **impacts on emissions of key EU policies and measures**, such as the Emissions Trading Scheme, the Regulations on CO_2 emissions from road transport, and other sectors covered by the Effort-Sharing Decision ➔ linked to ***Recommendation 3*** of this report	**Accepted.**
	2c) ensure that data collection **differentiates between mitigation and adaptation.** ➔ linked to ***Recommendation 2*** of this report	**Not accepted.** The implications of this additional administrative burden for both the Commission and the Member States are unclear.
	4) apply the **principle of conservativeness** and correct the overestimations in the **EAFRD** by reviewing the EU climate coefficients set. ➔ linked to ***Recommendation 1*** of this report	**Partially accepted.** The tracking methodology needs to remain stable during the current MFF for predictability, consistency and transparency purposes.

Special report	Recommendations to the Commission	Commission reply
 **SR 31/2016: Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short**	**6a)** develop a harmonised and proportionate system for **monitoring the actual implementation of climate action** ➔ linked to ***Recommendation 3*** of this report	**Not accepted.** This recommendation would increase the administrative burden on Member States, which was not foreseen under the current regulations.

Source: ECA.

Acronyms and abbreviations

CAP: Common Agricultural Policy

CEF: Connecting Europe Facility

CF: Cohesion Fund

DCI: Development Cooperation Instrument

DG: Directorate-General

EAFRD: European Agricultural Fund for Rural Development

EAGF: European Agricultural Guarantee Fund

EEA: European Environment Agency

ERDF: European Regional Development Fund

ESF: European Social Fund

ETS: Emissions Trading System

GHG: Greenhouse gas

MFF: Multiannual Financial Framework

NGEU: NextGenerationEU

NGO: Non-governmental organisation

OECD: Organisation for Economic Co-operation and Development

RRF: Recovery and Resilience Facility

Glossary

Agri-environment-climate measure: Any one of a set of optional practices going beyond the usual environmental requirements and entitling farmers to payment from the EU budget.

Biomass: A fuel derived from organic products and waste residue, used to generate power.

Carbon leakage: An increase in GHG emissions owing to transfer of production from a country with strict emission constraints to one where the rules are not so strict.

Climate action: Action to address climate change and its impact.

Climate change: Changes in the Earth's climate that result in new long-term weather patterns.

Climate change adaptation: Reducing the vulnerability of countries and communities to climate change by increasing their ability to absorb its impacts.

Climate change mitigation: Reducing or limiting the emission of greenhouse gases due to their effect on the climate.

Climate mainstreaming: Incorporating climate-related considerations in all policies, instruments, programmes and funds.

Climate neutrality: Situation in which human activities result in no net effect on the climate.

Climate spending: Any spending contributing (directly or indirectly) to climate objectives.

Climate tracking: Monitoring progress towards the targets of spending on climate action.

Common Agricultural Policy: The EU's single unified policy on agriculture, comprising subsidies and a range of other measures to guarantee food security, ensure a fair standard of living for the EU's farmers, promote rural development and protect the environment.

Deadweight: A situation where an EU-funded activity would have gone ahead even without receiving public aid.

Direct payment: Agricultural support payment, such as area-related aid, made directly to farmers, also known as income support.

EU climate coefficient: Weighting assigned to EU spending on projects, measures or actions to reflect the extent to which they incorporate climate considerations.

European Green Deal: EU growth strategy adopted in 2019, aiming to make the EU climate-neutral by 2050.

European Structural and Investment Funds: The five main EU funds which together support economic development across the EU in the 2014-2020 period: the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund.

Focus area: One of the elements into which the EU's main rural development priorities are broken down.

Greenhouse gas: A gas in the atmosphere – such as carbon dioxide or methane – that absorbs and emits radiation, trapping heat and so warming the Earth's surface through what is known as the greenhouse effect.

Gross National Income: A standard measure of a country's wealth, based on income from domestic sources and abroad.

Horizon 2020: The EU's research and innovation programme for the 2014-2020 period.

Intervention field: Category of activities financed by the European Regional Development Fund, the Cohesion Fund or the European Social Fund.

Multiannual Financial Framework: The EU's spending plan setting priorities (based on policy objectives) and ceilings, generally for seven years. It provides the structure within which annual EU budgets are set, limiting spending for each category of expenditure.

Natura 2000: Network of conservation areas for rare and threatened species, and some rare natural habitat types protected under EU law.

NextGenerationEU: Funding package to help EU Member States recover from the economic and social impact of the COVID-19 pandemic.

Rio conventions: Three agreements resulting from the United Nations' 1992 Earth Summit in Rio de Janeiro: the Convention on Biological Diversity, the Framework Convention on Climate Change and the Convention to Combat Desertification.

Rio marker: Indicator, defined by the OECD, of the extent to which an activity contributes to the objectives of the Rio conventions.

Replies of the Commission

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=61103

Timeline

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=61103

Audit team

The ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was carried out by Audit Chamber I Sustainable use of natural resources, headed by ECA Member Joëlle Elvinger. The audit was led by ECA Member Joëlle Elvinger, supported by Ildikó Preiss, Head of Private Office, Paolo Pesce and Charlotta Törneling, Private Office Attachés; Ramona Bortnowschi and Emmanuel Rauch, Principal Managers; Antonella Stasia, Head of Task; Ernesto Roessing and Jonas Kathage, Auditors; Marika Meisenzahl, Auditor and graphic design. Judita Frangež provided secretarial support.

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The EU committed to spending at least 20 % of its 2014-2020 budget on climate action. The Commission announced that the EU met the target, with €216 billion reported in climate spending for this period. We found that the reported spending was not always relevant to climate action and climate reporting was overstated overall. We estimated that it was overstated by at least €72 billion.

Despite the planned improvements in 2021-2027 climate action reporting, challenges remain. Our recommendations aim to enhance climate reporting and to link the EU's budgetary contribution to its climate and energy objectives. We also recommend obtaining scientific evidence to support the climate contribution made by the EU's agricultural policy.

ECA special report pursuant to Article 287(4), second subparagraph, TFEU.

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